BANKNOTES - NELSON NASH'S MONTHLY NEWSLETTER JULY 2011

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The Keys to Economic Growth

By Congressman Ron Paul

Recent economic data show that U.S. job growth in May was negligible, while the official unemployment figure – at least the figure the Labor Department admits to – rose to 9.1%. The real unemployment figure, however, as compiled by economist John Williams, may well be higher than 20%. It is clear the U.S. economy is in terrible shape, and that no amount of government spending or Federal Reserve quantitative easing can reduce unemployment, increase real productivity, or address our debt fiasco. U.S. jobs and productivity are dependent on the accumulation of private capital to finance existing businesses or fund new entrepreneurial activity. Private capital – whether accumulated by profitable U.S. businesses, invested by private equity and venture capital firms, or attracted from abroad – is the key to economic growth and new jobs. But we cannot create jobs if we demonize profits, punish risk-taking capitalists, and stay hostile to foreign investment.

The steps to encouraging capital investment and creating new jobs in America are simple, though not easy:

- First and foremost, we must create a sound U.S. currency backed by gold or some other commodity respected by the market. No nation in history with a rapidly depreciating currency has attracted private capital. Unless and until we prohibit the Treasury and Federal Reserve from essentially creating money and credit from thin air, we cannot restore the U.S. economy.
- Second, we must create a favorable regulatory environment for U.S. business. This cannot be stressed enough. When businesses don't know what's coming next from the EPA, when Obamacare spikes their healthcare costs, or when the Dodd-Frank bill adds almost unknowable regulatory compliance burdens, businesses simply will not expand and hire. It is time to start shrinking the federal register.
- Third, we must stop spending trillions of dollars overseas on foreign wars. There is no point in debating a foreign policy we cannot afford. It no longer matters what neoconservatives want. Our interventionist foreign policy is financed on credit, and our credit limit has been reached. Our economy would be infinitely better off if those trillions of dollars had never been removed from the private economy or added to our debt.
- Finally, we must completely revamp the U.S. tax system and move to a territorial model that does not tax foreign source income. U.S. corporations are sitting on more than a trillion dollars in foreign earnings that cannot be repatriated to the U.S. because of taxes. We need to stop taxing unpatriated funds to bring those earnings home. Better yet, we need to abolish the income tax altogether.

The U.S. economy is in deep trouble. Congress needs to act immediately to restore the rule of law and create an environment that rewards, rather than punishes, the critical components of any healthy economy: capital accumulation and investment.

In this struggling economy it is essential for politicians to take a step back and think about what government has been doing to business in this country. In less than 200 years, the free market, property rights, and respect for the rule of law took this nation from a rough frontier to a global economic superpower. Today, however, our nation and our economy clearly are headed in the wrong direction.

Of course, America has never enjoyed absolute free-market capitalism: creeping government intrusion and special interest political patronage have existed and increased since our founding. But America historically has permitted free markets to operate with less government interference than other nations, while showing greater respect for property rights and the rule of law. Less government, respect for private property, and a relatively stable legal environment allowed America to become the wealthiest nation on earth.

By contrast, the poorest nations almost always demonstrate hostility for free markets, private property, and the rule of law. Capital formation, entrepreneurship, credit, and wealth accumulation are uniformly discouraged in poor countries. Private contracts are not reliably enforced, and private property is not secure in the hands of owners. The predictable result is widespread poverty and misery.

The Chicago School versus the Austrian School

Mises Daily: Monday, June 20, 2011 by Robert P. Murphy

People often ask me, "How are the Austrians different from the Chicago School economists? Aren't you all free-market guys who oppose big-government Keynesians?"

In the present article I'll outline some of the main differences. Although it's true that Austrians agree with Chicago economists on many policy issues, nevertheless their approach to economic science can be quite different. It's important to occasionally explain these differences, if only to rebut the common complaint that Austrian economics is simply a religion serving to justify libertarian policy conclusions.

Before jumping in, let me give a few obvious disclaimers: I do not speak for all Austrian economists, and in this article I will be discussing modern Austrian followers in the tradition of Ludwig von Mises and Murray Rothbard. (On methodology in particular, the Austrians in the Rothbardian camp differ somewhat from those who look more to Friedrich Hayek and Israel Kirzner for inspiration.) It's also important to note that not every Chicago School economist thinks alike. Even so, I hope the following generalizations are representative.

The Austrians are oddballs among professional economists for their focus on methodological issues in the first place. Indeed, Mises's magnum opus, Human Action, devotes the entire second chapter (41 pages) to "The Epistemological Problems of the Sciences of Human Action." There was no such treatment in the last Freakonomics book.

Although most economists in the 20th century and our time would disagree strongly, Mises insisted that economic theory itself was an a priori discipline. What he meant is that economists shouldn't ape the methods of physicists by coming up with hypotheses and subjecting them to empirical tests. On the contrary, Mises thought that the core body of economic theory could be logically deduced from the axiom of "human action," i.e., the insight or viewpoint that there are other conscious beings using their reason to achieve subjective goals. (For more on Mises's methodological views, see this and this.)

In contrast, the seminal Chicago School article on methodology is Milton Friedman's 1953 "The Methodology of Positive Economics." Far from deriving economic principles or laws that are necessarily true (as Mises suggests), Friedman instead advocates the development of models with false assumptions. These false premises are no strike against a good theory, however:

The relevant question to ask about the "assumptions" of a theory is not whether they are descriptively "realistic," for they never are, but whether they are sufficiently good approximations for the purpose in hand. And this question can be answered only by seeing whether the theory works, which means whether it yields sufficiently accurate predictions.

Although Friedman's analysis sounds perfectly reasonable, and the epitome of "scientific," Mises thought it was a seductive trap for economists. For a quick illustration of the difference in perspectives, let me relay an example from my teaching experience.

It was a principles of microeconomics class, and we were using the (excellent) textbook by Gwartney, Stroup, et al. In the first chapter they have a list of several guideposts or principles of the economic way of thinking. As I recall, these are items such as, "People respond to incentives," and "There are always tradeoffs." These were noncontroversial things that every economist would agree were important for getting undergrads to "think like an economist."

However, the one guidepost that stuck out like a sore thumb announced, "To be scientific, an economic theory must make testable predictions." I explained to the class that even though this was a popular view among professional economists, it was not one that I shared. I explained that everything we would learn the entire semester from the Gwartney et al. textbook would not yield testable predictions. On the contrary, I would simply teach them a framework with which they could interpret the world. The students would have to decide whether the framework was useful, but ultimately their decision wouldn't boil down to, "Did these tools of supply and demand make good predictions?"

After I went through my spiel, one of the students made the excellent observation that not a single one of the other guideposts was a testable prediction. He was right! For example, how could someone test the claim that, "People respond to incentives"? I could say to a person, "I'll give you $20 if you cut off your big toe." Regardless of what happens, my claim is safe and secure. If the person doesn't cut off his big toe, it just shows that I didn't offer him a big enough incentive.

This is not mere philosophical grandstanding. Mises stressed that the important heritage of sound economic thought is not a collection of empirically tested claims about the behavior of economic variables. Rather, economic theory is an internally coherent framework for interpreting "the data" in the first place.

It's true that certain applications of economics involve historical evidence — such as investigating whether the Federal Reserve played an important role in the housing bubble — but this is a far cry from the typical mainstream economist's justification for mathematical model building.

Another major divergence between the Austrian and Chicago Schools is their explanation for booms and their policy prescriptions for busts. The readers of this article are likely familiar with the Austrian view, so I will omit another discussion.

"Far from deriving economic principles or laws that are necessarily true (as Mises suggests), Friedman instead advocates the development of models with false assumptions."

Chicago School economists obviously have nuanced views, but generally speaking they subscribe to the "efficient markets hypothesis." In its strongest form, the EMH denies that there could even be such a thing as the housing bubble (see here and here). Given their assumptions of rational actors and markets that quickly clear, and given that they lack a sophisticated theory of the capital structure of the economy, the Chicago School economists are forced to explain recessions as an "equilibrium" outcome due to sudden "shocks."

Historically they didn't consider the distortions caused by below-market interest rates (which of course are the key ingredient in the Austrian theory of the business cycle). However, recently more and more Chicago School critics of the Fed have been pointing out the dangers of Ben Bernanke's zero-interest rate policy.

Ironically, the policy area where the Austrians and the Chicago School differ most is in regards to money, the issue in which Milton Friedman specialized. Friedman (and coauthor Anna Schwartz) famously faulted the Federal Reserve for not printing enough new money in the early 1930s to offset the decline fueled by bank runs. In our time, some Chicago-trained economists — who justifiably point to Milton Friedman himself for vindication — blame the crisis in the fall of 2008 on Bernanke's "tight-money" policies. Naturally, these views are anathema to modern Austrians in the tradition of Murray Rothbard, who think the central bank should be abolished.

Finally, most modern members of the Austrian and Chicago Schools have vastly different ideas when it comes to the field known as "Law and Economics." Whether based in natural law or the traditional inheritance from the common law, Austrians tend to think that people objectively have property rights, full stop, and once we specify these rights the economic analysis can begin. In contrast, some of the more extreme applications of what could be called "the Chicago approach" would say that the assignment of property rights themselves should be determined on the grounds of economic efficiency. (In Walter Block's reductio ad absurdum, a judge decides if a man has stolen a woman's purse by asking how much each party would be willing to pay for it.)

This is a particularly subtle area that I cannot adequately summarize in this article. Suffice it to say, Austrians and Chicago School economists alike can appreciate the amazing insights — and challenge to the standard Pigovian critique of the market — contained in Ronald Coase's famous article. However, the Chicago School tradition has taken Coase's work to conclusions that many (perhaps most) modern Austrians find repellant.

On typical issues such as the minimum wage, tariffs, or government stimulus spending, Austrian and Chicago School economists can safely be lumped together as "free market." However, on many other areas — particularly issues of pure economic theory — the two schools are entirely different. As a self-described Austrian economist, I would encourage free-market fans who only know Friedman to add Ludwig von Mises and Murray Rothbard to their reading lists.

Robert Murphy is an adjunct scholar of the Mises Institute, where he teaches at the Mises Academy.

Isabel Paterson's Place in History

by Doug French on June 20, 2011
[The Woman and the Dynamo: Isabel Paterson and the Idea of America • Stephen D. Cox • Transaction Publishers, 2004 • 418 pages]

This year's release of the movie version of Atlas Shrugged — or at least a third of a shrug — has put Ayn Rand back in the spotlight. The man with the big-budget plan, Rep. Paul Ryan, is said to require that his staff read Rand. There's even a Senator named Rand — although he wasn't named for Rand, he's a Rand fan. There's so much Rand buzz that the Christian Right is now attacking Rand for her atheism.

Many mainstream Rand fans overlook her atheism while being wild for her moral support of capitalism. Rand studied history and philosophy in Russia, but she didn't read widely. Just who was it that provided Rand the education in the glories of free markets that most people identify her with?

"They'd sit up until four or five in the morning — and Ayn would be sitting at the master's feet," Rand's niece remembers.

One night, when they were talking, I went to bed, but I could hear the conversation, and it was if Pat were the guru and teacher — and Ayn didn't do that. Ayn would be asking questions, and Pat would be answering. It was very strange.

Isabel Paterson is the "Pat" Mimi Sutton was referring to — a "radical individualist in both theory and practice," explains Stephen Cox in his extraordinary The Woman and the Dynamo: Isabel Paterson and the Idea of America.

Paterson's The God of the Machine was one of four magisterial libertarian works to be published in the dark days of 1943. Although her book was more well-known than Albert Jay Nock's Memoirs of a Superfluous Man, which was released that year, Rose Wilder Lane's The Discovery of Freedom, and especially Rand's The Fountainhead were much more popular.

In the first third of The Fountainhead, economic ideas do not dominate. It was only in the remainder of Rand's first great success that, "after many months of intense discussions with Paterson about political philosophy and American history and institutions, does she develop the political meaning of Roark's experience," Cox explains.

Lane, like Rand, had the benefit of picking Paterson's brain, and Cox writes, "It is possible that Lane derived many of her key concepts from her all-night conversations with Paterson."

However, Discovery and God of the Machine are very different books, as Cox points out: "Libertarian readers have generally turned to Lane for emotional satisfaction and to Paterson for intellectual challenge."

The libertarian world of the 1930s, 1940s, and 1950s (referred to as the Old Right by Murray Rothbard) was a small one. So it's no surprise that the lives of these giants were intertwined. Although Dynamo is ostensibly about Paterson, readers are treated to a look into the lives of all the major libertarian figures of that time. Cox spends a chapter and then some focusing on the work of Lewis Douglas, who was influenced by his "Andrew Jackson Democrat" father "Rattlesnake Jimmy" Douglas; H.L. Mencken, who "was as courteous to people of all kinds as Paterson was forthrightly rude"; Garet Garrett, "a man of strange and unaccountable intellectual perturbations"; Albert Jay Nock, who "was so obsessively secretive that, rumor had it, staff members of the first Freeman could reach him only by putting messages under a certain rock in Central Park"; and of course Rand and Lane, as well as novelists Willa Cather and Gertrude Stein.

"Just who was it that provided Rand the education in the glories of free markets?"

Paterson made her living as a novelist and columnist. However, while her column in the New York Herald Tribune was "Turns With a Bookworm," she was given the latitude to write about most anything she wanted, which turned out to be economics, politics, and whatever else came to her mind.

Her favorite Depression book was Garrett's The Bubble that Broke the World, and she understood the Austrian view that the Depression was a curing of the boom created by the government's cheap money, and that the hard times continued because of government price supports and programs that hampered the liquidation of what Austrians would call malinvestments.

She railed against FDR's gold seizure from a woman's point of view:

Never shall we forget the line of women we saw turning in their savings, under threat of ten years in jail and ten thousand dollars fine, while the multimillionaire Senator Couzens stood up bravely on the floor of the Senate and promised to "hunt them down" if they tried to hold out a few dollars

Paterson was not just adventurous with her words — calling Eleanor Roosevelt "a pathetic fool" for instance — but the first time she flew, November 5, 1912, she set a record for reaching an altitude of 5,000 feet, flying higher than any woman had to that point. The 26-year old Canadian frontier girl sat beside pilot Harry Bingham Brown in the tiny Wright biplane, constructed of cloth and wood and said afterward, "It was the greatest experience of my life."

In Utah, she attended school but a month before asking to leave. She knew more than the teacher and at seven years old she was already reading "a consideration of Bryan's stand on the free silver question." So readings the teacher offered, like the Little Red Hen, provided no stimulation.

The Bowler (Isabel's maiden name) family traveled throughout the West and times were hard. She left home at 18 and began a series of jobs — so many she lost count. She married Kenneth Paterson, but left him within weeks. As to why she married him, no one knows. These experiences provided the fodder for her novels.

Paterson's novels to varying degrees were autobiographical, and Cox artfully constructs Paterson's early years while providing summaries of her novels and the characters. After leaving her husband, she immediately found a writing career, by accident. Starting as the boss's secretary at a Spokane newspaper, within two weeks she was writing editorials.

Paterson was a much stronger brew than today's faux freedom-fighting tea party, but they would be happy to know she sided with them on the God question and spent many hours arguing with Rand on religion.

In the end, Rand and Paterson parted company over the issue. Their last phone conversation, in 1959, prompted Paterson to write to a friend,

Talking to her, I realized how impossible it has become to communicate with her at all. … It's the darnedest thing, but professed atheists (one of whom she is which) are really more bigoted than any adherents of any religion, except perhaps Whirling Dervishes.

Paterson viewed men as dreamers, always looking to run off, change jobs, change the world, or conduct social experiments. While men are engaged in fanciful thinking and abstractions, women are more practical, getting down to work and raising families. "And on the personal level," writes Cox, "that is what the libertarian philosophy comes down to."

Anyone in the freedom movement owes a debt to Isabel Paterson. She was brilliant, productive, tenacious, and complicated. Professor Cox's work is worthy of his subject.

Douglas French is president of the Mises Institute and author of Early Speculative Bubbles & Increases in the Money Supply

Nelson's Newly Added Book Recommendations

THE OVERSPENT AMERICAN by Juliet B. Schor

THE TWO INCOME TRAP by Elizabeth Warren and Amelia Warren Tyagi

I read these two books in preparation for an upcoming presentation at the Night of Clarity in Nashville, TN. Both books are simply explaining Parkinson's Law in detail. I regret the "solution" to the problem that the Warren suggests is political action – but, what else could one expect from a Harvard Lawyer. I still think that Bill Bonner's comment sums the problem up the best, "Americans buy things they don't need, with money they don't have, to impress people they don't know, and could care less." Controlling the banking function in life at the personal level is the real solution. - Nelson

For a complete listing of Nelson's personal library, please refer to our Recommended Reading list on our website: www.infinitebanking.org/books.php

Voting: The 'God' That Failed!

by Gary D. Barnett

"It is morally tragic whenever a citizen's only choice is between two wrongdoers—that is, between two trimmers.

~Leonard E. Read … The Lesser of Two Evils

I am constantly amazed by my fellow citizen's reverence for voting. This blind worship for this worthless endeavor is troubling to say the very least, but nonetheless firmly entrenched in the minds of the masses. Almost from birth in this country, we are taught that voting is a "sacred" right, a right so important as to be one of, if not the greatest right. I must not have been indoctrinated properly by the government school system, as I consider the most sacred rights as those natural rights to life, liberty, and property, certainly not casting a ballot for one or another criminal in politics.

I consider voting today only as an avenue that allows one group to legally plunder another, and a process that fully legitimizes a corrupt political system. Those who vote are obviously supportive of the political process and the political actions taken in this country, and are responsible for those they elect, and for what they do in office. This is why I think the old adage that "those who do not vote have no right to complain" is backward. Those who vote to allow the political carnage are the ones responsible for the problems, while those who don't vote have nothing to do with electing criminal politicians. Therefore not voting is in and of itself a political statement denouncing the system, while voting shows favor of that same nefarious system.

One of the major problems of voting as I see it is that those who vote for this, that, or the other, are setting policy that affects all those who voted differently, and all those who did not vote at all. This is democracy or mob rule, the first step toward a socialistic and collectivist system. The reason this is so is due to the fact that we live in a forcibly run dependent society where one can vote to benefit at the expense of another. This truth is overlooked by the "I Voted" crowd, but nonetheless is the lynchpin of redistributive politics.

So who are the big winners due to this scheme called voting? Who benefits the most? The government and all its corporate sponsors, including the banking system, are the real winners of the voting process. They are the controllers; they are the takers and users. They use force in order to gain power, and to steal via extortion the honestly earned wealth of others. They gain the "right" to rule over the country and us, and are legitimized by this scam. By selling the notion that voting gives everyone a say in politics, little is questioned after the fact. The politicians controlling the government sit back and revel in the notion that they have been chosen the new Caesars by the people's vote. They were properly elected in a democratic process you understand. They are the people's choice. The dust has settled, and the people have spoken!

How can any sane individual believe that this political process is not fatally flawed? How can any not understand that voting leads directly to one group ruling over another, this regardless of whether a minority or majority wins the day. Either way, those elected to power rule over all others when voting is the method used to choose, and this type of rule ultimately eliminates liberty and leads to tyranny.

While the government benefits most from this procedure, the supportive public is just as responsible for the harm caused. Their votes authorize government action, and give willing consent to the elected king and his court. This group consent determines our individual lot in life, thereby destroying our individuality. If our society were based on self-reliance and self-responsibility, if our laws were based only on our natural rights to life, liberty, and property, if the individual were sovereign, would voting be necessary or would it even exist? Would we need "rulers" in a truly free society?

Politics breeds corruption, and voting supports that corruption. The masses in this country have been force-fed the notion that voting is their sacred right. They have been brainwashed into believing that the vote is what sets them apart from slaves. The exact opposite of course is true. They have been taught to ridicule all those who would question this "sacred" right, and are not embarrassed to do so. Voting in the "minds" of most in other words cannot be questioned.

Consider the recent Rasmussen Report highlighted on Lew Rockwell's Political Theater showing that over 83% of the lemmings in this country believe that one person's vote really matters. In a country of well over 300 million people, how in the world could anyone think that their single vote counted? Even if they thought this possible, how could they accept that this voting was moral, when that same voting legally allows for one to be abused for the benefit of another?

The act of voting has become so entrenched into this society that its validity cannot be questioned without rebuke. It is considered by many to be the rock of democracy, the literal cornerstone of liberty. While this thinking is nonsense, it is still the mainstream position, and therefore important because our lives are ruled by this dangerous and asinine process. Even if the current system we live under were not present, would voting then be more legitimate? Would the fact that one could not benefit at another's expense be enough to justify voting? I don't think so, because the act of voting would still always pit one against another in deciding the outcome of life. These things should be based only on natural and inherent rights, and all disputes should be handled privately. This way, one part of society is not constantly at odds with the other.

I can think of only one instance in which voting could be considered legitimate. That would be in a system where all those who wanted to vote acted voluntarily, and accepted the outcomes of their own actions, while all non-voters ignored the entire process. In other words, all who did not participate in voting would be completely exempt from all decrees passed down by those elected by the voters. There would be no consent given, and therefore none granted. This is a just way to eliminate the rule of one over another within a corrupt system. It is a way to stop rule by a majority, or even a minority over those who disagree.

No one who had any belief in freedom could ever have come up with the idea of voting. Voting by definition and design eliminates the individual in society for benefit of the collective. Individualism epitomizes freedom, while collectivism epitomizes slavery. Voting then is simply mob rule, the bane of freedom, and the fodder necessary for a society based on servitude!

"What ass first let loose the doctrine that the suffrage is a high boon and voting a noble privilege?"

~ H.L. Mencken

June 14, 2011

Gary D. Barnett is president of Barnett Financial Services, Inc., in Lewistown, Montana.

Financial suicide, with the assistance of your bank

May 25, 2011 5:40 pm CT

William Vincent

Fort Worth Personal Finance Examiner

Dr. Jack Kervorkian is out of prison. Euthanasia has always been an interesting discussion topic, but Kervorkian brought it to the forefront through suicides via bold, well-orchestrated media events. His activities cost him 8 years in prison. Of course, less conspicuous, and in the long term, just as deadly to the physical body, is any number of vices we human beings seem to regularly engage in. Little by little, with each indulgence, they can rob us of our physical capital. Eventually, they can have the same effect … a form of suicide. Of course, we justifiably decry such behavior as "self destructive" and we regularly try to educate ourselves on how to either eliminate the vice altogether, or at least minimize its debilitating effects, and perhaps even reverse the damage.

Yet we seem to think nothing at all about committing financial suicide, using our banks as our weapons of choice! It's a plague here in Texas just as it is across the U.S.

In a meeting recently with his financial advisor, a Mansfield, TX client proudly announced what he thought was great news: He now had a mortgage with an interest rate of 3.99% Rather smugly, he even challenged his financial advisor to dare suggest a better financial plan.

"Sounds like a great rate, congratulations! Now, what is your monthly payment, excluding property tax and house insurance?"

"$1,600," the client proudly replied.

"And what percentage of your monthly payment goes to interest?"

"Uh, let me check," the client said, as he fumbled through a few of the documents he brought in for the meeting. After locating his most recent mortgage statement, he then pulled out his cell phone to access his handy calculator app. After completing his calculations, with noticeably less pride, he reported back to the financial advisor:

"97.62%."

"Mmm … not exactly 3.99%. But you're no different from every American. We all seem to focus on the rate, but not on the volume."

And therein lies perhaps the biggest problem American consumers cause themselves financially: We focus on the interest rate, without paying attention to the raw volume of interest we pay. But it's the raw volume of interest that banks receive from us.

Banks are the vices of the finance industry. They are simply retailers of money. Like any vice, a bank saps you of your financial capital, little by little, with each single financial transaction. Interest, a fixed fee, a penalty, or even all 3 together, rob you of your net financial worth. We seem happy sometimes if we're just surviving … paying the bills, keeping up with monthly payments, or even paying off those cards in full each month. But if a hard look at the total volume of interest they take isn't enough to really tick you off, the percentage they make off the money you deposit in their accounts would absolutely astound you. It amounts to roughly 700% (with the aid of "fractional reserve banking"), but that's a topic for another article.

The following statistics should be of interest to every American. They are taken from a variety of sources, including the Federal Reserve, the U.S. Department of Commerce, and Consumer Reports. The figures are rounded. As of 2005:

Average household income: $46,000

Average credit card debt: $10,600

Average consumer debt, excluding credit cards (i.e boats, cars, vacations): $21,000

Average mortgage: $142,500

Average mortgage interest paid per year: $13,500

Average credit card interest paid per year: $1,500

Average consumer debt interest paid per year: $1,900

TOTAL INTEREST PAID PER AMERICAN HOUSEHOLD EACH YEAR: $16,900

TOTAL AVERAGE PERCENTAGE OF INCOME PAID IN INTEREST: 36.7%

This last statistic ought to send shivers up the spine of every American. Sadly, it probably won't. 36.7% of our income is going to a bank solely for the privilege of using money that, ironically, doesn't even belong to the lending bank. It belongs to people who use that bank to save their money. Why? Because we Americans have become so conditioned to using commercial banks to fund pretty much every major purchase, that we routinely brag about a 4% mortgage interest rate, while also bragging about the 2% our CD may be netting us. We seem to think nothing about getting half in interest that we're paying out on the mortgage! This is tantamount to taking in two parts of poison, with one part of antidote. And the sad current reality is, most Americans are saving less than 5% of their income, while paying in interest over 35%. Not to kill the poison metaphor, but this is 7 parts poison to one part antitode. Suicide by pretty much anyone's definition.

Most every American is now aware that the U.S. government is borrowing 41% of what it spends. Politicians are scrambling to enact legislation intended to avoid the inevitable "suicide" of the United States government. The public is freaking out about it – and rightly so. Political pundits and economists routinely brand this practice as "unsustainable."

Yet the average American spends 36.7% of his total income IN INTEREST ALONE. If realizing that the government is borrowing of 41% of its total expenditures is enough to send us into a panic, we should accept, easily, the notion that totally losing 36.7% of our incomes annually bank, is tantamount to financial suicide. And our use of the bank has become our weapon of choice.

Unfortunately, average Americans are so busy living life as they know it, they have no idea that they're killing themselves financially. Alternatives exist. But they require looking at money in a whole different perspective. There are alternatives to routinely bludgeoning your financial future with never-resting bank charges. The financially healthiest Americans are generally not the ones who make the most money. They're the ones who figure out how they can actually keep the money they make. Imagine keeping the 36.7% that the average American pays to banks. If you take into account that you may be able to pay that interest back to yourself, that puts you essentially 73.4% ahead of that average American.

Talk about breaking an unhealthy vice. Here's to avoiding financial euthanasia!

http://www.worldsalaries.org/usa.shtml

http://www.visualeconomics.com/a-lifetime-of-debt-the-average-americans-financial-journey/

http://www.federalreserve.gov/creditcard/

ADDITIONAL NOTE FROM WILLIAM VINCENT ON FRIDAY, JUNE 3, 2011: It has just come to my attention that Dr. Jack Kervorkian, referenced above in my article, passed away early this morning. My heartfelt condolences go out to his family and loved ones during this time.

The Money Tree has been discovered ... and you don't want it!

June 2, 2011 4:51 pm CT

William Vincent

Fort Worth Personal Finance Examiner

"It's a Saturday morning confusion

And if I could just hide in my attic

So I couldn't hear my wife yellin' 'Take 'em all to the show'

I'll take the whole neighborhood to the show

I'll just walk out in back where the Money Tree grows

Grab me a handful and off to the show we'll go"

So dreamed Bobby Russell in his 1971 hit song "Saturday Morning Confusion."

Ah, the fabled Money Tree! It's probably human nature to dream about shortcuts and easy fix. From Ponce De León's Fountain of Youth, to science fiction's wormhole, to that ultimate elixir, the Holy Grail, shortcuts around or over the natural consequences of life have always been dreamed about. And if we think someone has found one of those great immediate fixes to our most vexing problems, we begin to covet it. However, none seem to distract our attention from reality as effectively the Money Tree. Thinking that it doesn't exists sometimes just ruins a nice dream or fantasy! Just imagine what life would be like to be able to "walk out in back where the Money Tree grows," and "grab a handful."

Of course, dreamy solutions to real problems are kind of like the hot dogs we slap on our grills during hot summer nights here in Texas. They taste great, but there are the nasty details of what exactly these hot dogs are really made of. Who knows what long-term effect they have on our bodies. As much as enjoying these hot dogs can lull us into some very temporary dreamland, eventually the reality of the nasty details hits us ... sooner or later.

But suppose you were lucky enough to actually have a Money Tree in your backyard. What might happen? Chances are, your favorite stores will find out, and they'll probably raise prices on you. There is the nasty issue of security in your backyard as your neighbors and others in the community trespass on your property for just a little of the Money Tree's growth. Scientists bugging you with offers to clone the tree ... although I don't know what they could possibly offer you that the Money Tree couldn't adequately supply.

Still, most of us wouldn't mind finding the Money Tree and being able to use it, with all of its "nasty details."

Well, there is good news and bad news: the good news: an organization has found a Money Tree. and is using it. The bad news details: you are paying dearly for it.

GOOD NEWS: The organization that has found, and is using, the Money Tree is called the Federal Reserve Bank (also known as the Fed). But the Fed calls the Money Tree by a different name: "Fractional Reserve Banking." Simply put, the Fed's Money Tree is the process by which the Fed allows commercial banks to lend about 10 times the amount of reserves the Fed requires those banks to keep, and, thus, 10 times the amount of deposits the banks actually have.

Here is how it works: If you receive $10,000, you will dutifully go to your bank to deposit it. Your bank, by law, will put $1,000 in reserves, and then lend out the remaining $9,000. Someone will borrow the $9,000 (via credit cards, auto loans, mortgages, etc.), and pay a person or organization that $9,000. What will that person or organization do? Just like you did, he/she will dutifully go to the bank, and deposit the money. What will the bank do? Set aside $900 in reserves, and lend out the remaining $8,100. And so on, and so on.

This process will continue until, finally, there is $10,000 in reserves, with $90,000 additional lent out. All of this based on your $10,000 deposit! In other words, your bank can lend out about 10 times the amount of deposits.

Question: Where did the other $90,000 come from? Answer: The Fed's Money Tree. Yes, it doesn't exist!

The very considerable moral and ethical concerns aside, this is actually great news for your bank. The Fed authorizes your bank to come grab handfuls from the Money Tree, under its rules and regulations. But by anyone's definition, Fractional Reserve Banking is legal counterfeiting. None of us could simply print money and infuse it into the economy. However, the Fed can. So you can only imagine why a bank charter is so coveted. By conservative estimates of some economists, banks make approximately 500% off your deposits by virtue of their ability to access the Money Tree. Which leads us to the bad news.

BAD NEWS: You are paying for the Money Tree in several ways.

You were probably not very happy that your bank promised you 0.35% interest on your $100,000 deposit. However, you now ought to be really ticked off that your bank is making around 499.65% off YOUR $100,000.

Inflation. It exists primarily because of infusion of extra "money" into the economy. If the amount of money available were fixed, and we could all be assured it would stay that way, prices of the things we want to buy would be driven exclusively by supply and demand. No one would get wind that there is a bunch of extra money available, and start to charge more. The Fed's Money Tree puts imaginary money into the system. This causes inflation, and everything you need to purchase to live your life will cost more.

This inflation is a really interesting phenomenon, and based on the Fed's own reports, it could get dramatically worse. Take a look at the graph accompanying this article. This comes from the Fed's own website (1). It charts the Fed's excess reserves. Remember that the Fed allows banks to issue loans of up to 10 times the amount of reserves. Reserves are generally determined by deposits into the banks. However, the Fed can create more money by creating more reserves. If the Fed's graph doesn't frighten you, I'm not sure what ever will!

As you can see, the Fed really didn't keep excess reserves until about 2008. Look at the thin line on the graph that represents the excess reserves. It follows zero, until about 2008. Then the line literally shoots straight up. Right now, the Fed says it has nearly $1.5 trillion excess reserves. And, since the Fed can allow loans of up to 10 times the amount of reserves, they could authorize the release of up to $15 trillion into the economy through loans.

FYI: According to the Fed, the TOTAL amount of spending money available in the United States is $1.918 trillion (2). Can you imagine what would happen to the economy if the Fed allowed $15 trillion MORE released?

So what can you do about it? First, study up on it. Yes, like the content of those hot dogs that you may consume from your grill tonight, the details may not be pleasant. Heck, they may just rock your world. But it's always better to know. And look for ways to keep your money working for you. There are ways. You'll see some alternatives in future articles.

And please accept apologies from the author for possibly ruining pleasant dreams of going out back where the Money Tree grows and grabbing handfuls to solve life's problems. Consider it food for thought, complete with details!

(1) http://research.stlouisfed.org/fred2/series/EXCRESNS

Recommended by the author: The book written by Carlos Lara and Robert Murphy, *How Privatized Banking Really Works*

Fourteen in a monthly series of Nelson's lessons, right out of Becoming Your Own Banker®. We will continue until we have gone through the entire book.

Lesson 14 -- Content: Page 24 & 25, *Becoming Your Own Banker – The Infinite Banking Concept®*, Fifth Edition, Fifth Printing.

In the previous lesson it should be obvious that this young man is paying $310.00 per month to the pool of money -- $50.00 directly, in the form of premiums, and $260.00 indirectly, in the form of car payments. If he could understanding what is really happening and pay the $310.00 directly to the insurance company in the form of premiums for around four to five years, he could now make a policy loan and pay cash for the car.

But, this is the most important part – the insurance agent must make him vividly aware that he must repay the loan at an interest rate that is at least equivalent to the interest rate of an automobile finance company – not what the policy calls for. In this case it should be at least $260.00 per month. If the owner of the policy does this, then he will effectively make what the finance company would otherwise make and do it all on a tax-free basis. If the agent is really good and understands the principles of banking, he will encourage the policy owner to pay $275.00 per month because the "extra" dollars will go to his policy (or policies) to increase the capital that can be lent to other parties.

If the policy owner objects and says something like, "It's my own money and I'm not going to pay any interest at all"-- or even, "I'm only going to pay 2.9% as is advertised on the TV commercials" -- then the agent must remind him of the grocery store example as taught earlier in this course and explain it all to him one more time. If he still doesn't understand then the agent needs to have him revisit the First National Bank of Midland, TX and see how those folks killed the best business in the world. If he still doesn't understand, the agent needs to resign from working with him because he is not teachable, or he is a thief! Neither of these characters is a good business associate.

You have now had an explanation of all the essential principles of "banking" through the use of dividend-paying life insurance, but to understand the infinite qualities of The Infinite Banking Concept requires a much deeper look. In the previous example of car financing, the capitalization really needs to be more than four years. Many college business professors estimate that corporations expect it to take at least seven years to make a profit on a new product. This is an understatement in certain circumstances. For instance, I have a degree in forestry and I know it takes much longer than that!

So, why not capitalize at least seven years on each policy that one purchases, to the point where dividends will pay all the remaining premiums on the policy. The mechanics of this will be covered later on in this course, so let's not bother with it at this time. Remember, I'm describing how all this works with the example of one policy—but you should be thinking on the basis of a system of many policies.

Would you have much of a grocery store if you were the only customer? You must build it to the point where you accommodate the needs of others in order to prosper. The same principle applies to banking. Have you not noticed that when a grocery store becomes successful in one location, then it tends to establish another store in another location?

Have you not noticed that banks have branch offices? There must be a reason for this.

Then, why not expand your own potential by buying all the life insurance on yourself that the companies will issue? And then, on all the people in which you have an insurable interest? At present, does not all your income go through the books of some banking institution?

Don't the banks lend out the deposits of customers?

All banks do is capitalize the bank (Capital Stock) to make it a safe place for customers to deposit their money and then the banks lend out the money left on deposit. If they don't lend it out they will go out of business.

It will take the average person at least 20 to 25 years to build a banking system through life insurance to accommodate all his own needs for finance – his cars, house, etc. But, once such a system is established, it can be passed on to future generations as long as they can be taught how the system works and suppress their baser instincts to "go out the back door of the grocery store" with goods. Or, to put it bluntly – to steal!

Nelson's Live Events For The Next Two Months

Our comprehensive *Becoming Your Own Banker®* seminar is typically organized into a five-part, ten-hour consumer-oriented study of *The Infinite Banking Concept®* and uses our book *Becoming Your Own Banker®* as the guide. Nelson covers the concept's fundamentals in a two-hour introductory block the first day. He then covers the "how to" over an eight-hour block the final day. These seminars are sponsored by IBC Think Tank Members, therefore attendance is dictated by the seminar sponsor. If you are interested in attending one of these events, please call or email the contact person listed with the seminar.

Nelson Live in Nashville, TN, at the NIGHT OF CLARITY, Friday, July 22, Saturday, July 23, contact United Services and Trust Corp, 615-482-1793, usatrust@comcast.net

Nelson Live in Nacogdoches, TX, Tuesday, July 26, Wednesday, July 27, contact Ricky Heard, 936-564-1735, rickyh@cbhins.com

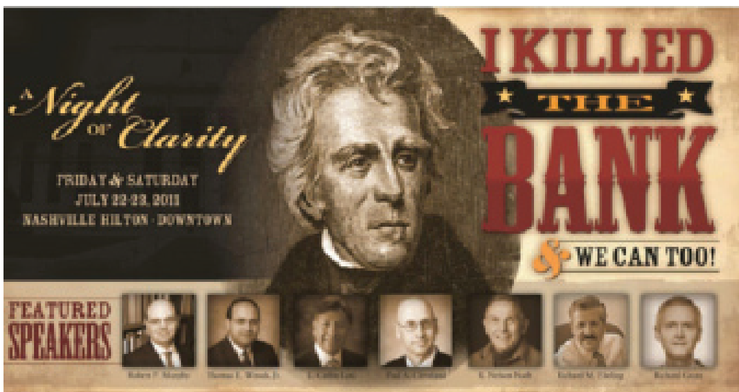
Nelson Live in Fort Worth, TX, Friday, July 29, contact James Neathery, 817-790-0405, jcneat@gmail.com

Nelson Live in Tucson, AZ, Thursday, August 25, Friday, August 26, contact Jeff Iorio, 520-940-4635, jiorio@sagarizona.com

During the term of his administration, President Andrew Jackson shut down the Central Bank and paid off the entire National Debt! These two heroic accomplishments have never been duplicated, but prove it can be done!

Come, Learn, and Be Inspired!
Join us in Nashville, Music City, U.S.A., July 22nd and 23rd for

"A Night of Clarity"



All Sessions Open to the General Public

You may register for all sessions or just the ones you wish to attend.

Location is the Nashville Hilton Downtown.

To attend the Night of Clarity, or for more Conference Details, click here: www.usatrustonline.com

Friday, July 22, 2:00 p.m. - 9:30 p.m.
- Night of Clarity Speakers
- Book Signing
- Cocktail Reception
- Dinner
- Q & A with Speakers

Saturday, July 23, 9:30 a.m. - 8:00 p.m.
- Privatized Banking Conference
- Tented Cocktail-Hors d'Oeuvres Reception at the Hermitage (Residence of President Andrew Jackson)
- Late Night with Murphy-VIP Reception at Lonnie's Western Room

Featured Speakers

Thomas E. Woods, Jr., PhD, Richard M. Ebeling, PhD, Paul A. Cleveland, PhD, Richard J. Grant, PhD, Robert P. Murphy, PhD, R. Nelson Nash, L. Carlos Lara

"Special group room rates of $169 at the Downtown Hilton are still available, but are now based on group block availability. If you are planning on attending please make your hotel reservations as soon as possible."